Editorial

Spreading the risk

Since we highlighted mobile handset sales in the last issue (page 4), manufacturers have confirmed their reductions in forecasts for 2000 from analysts' estimates (at the beginning of the year) of 440-500m to 410-425m.

Corresponding inventory reductions have thrown some major GaAs RFIC suppliers from record sales in first-half 2000 to falling orders in second-half 2000, with RF Micro Devices heavily dependent on Nokia and ANADIGICS also hit by supply-chain mismatches as main customer Ericsson suffered a shortage of silicon components (see p4).

Subsequent drops in share prices highlight the volatility of a market focused on just a few major manufacturers, where a relatively poor performance by one or two can panic investors into depressing the whole sector. Indeed, for 2001, diversified IC suppliers like Motorola and Texas Instruments are leaving handset forecasting to their customers in the hope that analysts will focus on demand for other chips.

The trend is therefore continuing for GaAs suppliers to diversify their customer and application bases from wireless to broadband, opto and networks. Examples include Kopin forming an Optical Communications Group and Conexant splitting into Internet infrastructure and personal networking companies - pp 5 and 9). To capitalise on the boom in communications, there is also a trend for chip makers to mix-and-match process technologies:

* between compound semiconductor materials (with RFMD following Vitesse by spreading out from GaAs into InP - see p17);
* from compounds to Si, with Vitesse acquiring Philips WAN business (p8) and ANADIGICS launching a silicon IC in July;
* from silicon to compounds, with Microsemi starting GaAs fabrication (p12) and Agilent installing a 6" GaAs line at a silicon fab to take advantage of existing expertise (p8).

However, even the fibre-optic sector has started to suffer from investor jitters. JDS-Uniphase has acquired several component suppliers over the past year for about US$60bn of its rapidly growing stock. But, like the handset industry, recent consolidation has led to vulnerability to poor results from a few major players. Nortel Networks sales for Q3 - though up 42% on a year ago - were several percent below expectations which led to its stock price losing 30% (US$55bn). With Lucent experiencing set-backs too, JDSU's stock has also been hit.

The challenge for suppliers is thus to spread risk by diversifying, without becoming hostage to another consolidated and volatile high-tech sector, perhaps by entering the fast-growing LED display and lighting sector (a topic we will cover in our next issue).

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0961-1290/00/$ - see front matter